DISCLOSURE STATEMENT

For the six months ended 30 September 2019

The Cooperative Bank

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CONDENSED INCOME STATEMENT

	Note	Unaudited 6 months ended 30/09/2019 $000	Unaudited 6 months ended 30/09/2018 $000
Interest income		70,621	69,994
Interest expense		(39,861)	(38,892)
Net interest income		**30,760**	**31,102**
Net insurance income		3,611	3,943
Fees and other operating income		5,519	4,569
Gain on financial instruments at fair value		750	389
Net operating income		**40,640**	**40,003**
Operating expenses		(32,894)	(30,356)
Impairment losses on loans and advances	3(d)	(984)	(1,805)
Profit before income tax		**6,762**	**7,842**
Income tax expense		(1,925)	(2,200)
Profit after income tax attributable to shareholders		**4,837**	**5,642**

NZ IFRS 16 has been adopted from 1 April 2019 and has been applied in the preparation of the condensed income statement, the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed balance sheet. Comparative balances have not been restated. Refer to note 1 for further information.

The notes to the condensed interim financial statements form part of, and are to be read in conjunction with, these condensed interim financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 6 months ended 30/09/2019 $000	Unaudited 6 months ended 30/09/2018 $000
Profit after income tax attributable to shareholders	**4,837**	**5,642**
Items that may be reclassified subsequently to profit or loss		
Fair value movement on fair value through other comprehensive income ("OCI") investments	4,101	971
Fair value movement on fair value through OCI investments released to the income statement	537	312
Fair value movement on cash flow hedging reserve	(4,998)	(1,134)
Income tax expense relating to items that may be reclassified	100	(41)
Other comprehensive (expense)/income for the period, net of income tax	(260)	108
Total comprehensive income for the period attributable to shareholders	**4,577**	**5,750**

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Note	Unaudited 6 months ended 30/09/2019 $000	Unaudited 6 months ended 30/09/2018 $000
Opening balance of equity at 31 March		197,672	181,540
Adjustment on adoption of NZ IFRS 9 (net of tax)		-	(726)
Adjustment on adoption of NZ IFRS 15 (net of tax)		-	6,753
Adjustment on adoption of NZ IFRS 16 (net of tax)	1(e)	(1,303)	-
Balance at 1 April		196,369	187,567
Profit after income tax attributable to shareholders		4,837	5,642
Other comprehensive income attributable to shareholders		(260)	108
Closing balance of equity		**200,946**	**193,317**
Retained earnings			
Balance at beginning of period at 31 March		198,109	182,509
Adjustment on adoption of NZ IFRS 9 (net of tax)		-	(726)
Adjustment on adoption of NZ IFRS 15 (net of tax)		-	6,753
Adjustment on adoption of NZ IFRS 16 (net of tax)	1(e)	(1,303)	-
Balance at 1 April		196,806	188,536
Profit after income tax		4,837	5,642
Balance at end of period		201,643	194,178
Fair value through OCI investments reserve			
Balance at beginning of period		5,881	1,831
Fair value movement through other comprehensive income		4,638	1,283
Income tax through other comprehensive income		(1,299)	(359)
Balance at end of period		9,220	2,755
Cash flow hedging reserve			
Balance at beginning of period		(6,318)	(2,800)
Fair value movement through other comprehensive income		(4,998)	(1,134)
Income tax through other comprehensive income		1,399	318
Balance at end of period		(9,917)	(3,616)
Total equity		**200,946**	**193,317**

The notes to the condensed interim financial statements form part of, and are to be read in conjunction with, these condensed interim financial statements

CONDENSED BALANCE SHEET

	Note	Unaudited 30/09/2019 $000	Audited 31/03/2019 $000
Assets			
Cash and cash equivalents		48,350	20,964
Receivables and prepayments		15,283	13,045
Fair value through OCI investments		293,018	256,052
Derivatives		7,244	6,141
Fair value through profit or loss investments		8,383	7,924
Loans and advances	2	2,504,122	2,460,533
Tax receivable		–	127
Property, plant and equipment		8,017	8,738
Right of use lease assets		30,805	–
Intangible assets		11,958	12,332
Total assets		**2,927,180**	**2,785,856**
Liabilities			
Rebates to shareholders		–	2,100
Payables and other liabilities		7,917	8,707
Lease liabilities		33,074	–
Current tax liabilities		430	–
Deferred tax liabilities		1,396	2,105
Derivatives		22,228	15,711
Deposits		2,380,927	2,320,576
Secured borrowings	4	230,235	189,214
Life insurance net policy liabilities	6	4,981	4,791
Subordinated notes		45,046	44,980
Total liabilities		**2,726,234**	**2,588,184**
Net assets		**200,946**	**197,672**
Equity			
Retained earnings		201,643	198,109
Fair value through OCI investments reserve		9,220	5,881
Cash flow hedging reserve		(9,917)	(6,318)
Total equity		**200,946**	**197,672**
Interest earning and discount bearing assets		2,857,940	2,750,027
Interest and discount bearing liabilities		2,476,042	2,430,324

The notes to the condensed interim financial statements form part of, and are to be read in conjunction with, these condensed interim financial statements

CONDENSED STATEMENT OF CASH FLOWS

	Unaudited 6 months ended 30/09/2019 $000	Unaudited 6 months ended 30/09/2018 $000
Cash flows from operating activities		
Interest received	70,898	70,248
Other income received	8,644	8,309
Payments to suppliers and employees	(26,455)	(27,195)
Interest paid	(39,912)	(37,754)
Income tax paid	(1,298)	(5,133)
Rebates to customers	(2,100)	(2,100)
Net cash flow from operating activities before changes in operating assets and liabilities	**9,777**	**6,375**
Loans and advances	(45,251)	(94,266)
Fair value through OCI investments	(32,089)	11,906
Fair value through profit or loss investments	(309)	(1,443)
Deposits	60,433	46,263
Drawdown of secured borrowings	41,195	15,000
Cost of raising secured borrowings	(157)	-
Net changes in operating assets and liabilities	23,822	(22,540)
Net cash flow from operating activities	**33,599**	**(16,165)**
Cash flows from investing activities		
Purchase of property, plant and equipment	(841)	(2,966)
Purchase of intangible assets	(2,498)	(1,339)
Net cash flow from investing activities	**(3,339)**	**(4,305)**
Cash flows from financing activities		
Interest paid on subordinated notes	(1,600)	(1,600)
Payment of lease liabilities	(1,274)	-
Net cash flow from financing activities	**(2,874)**	**(1,600)**
Net movement in cash and cash equivalents	**27,386**	**(22,070)**
Opening balance of cash and cash equivalents	20,964	46,383
Closing balance of cash and cash equivalents	**48,350**	**24,313**
Reconciliation of profit after income tax with net cash flow from operating activities		
Profit after income tax attributable to shareholders	4,837	5,642
Non-cash items	6,873	5,386
Changes in working capital	20,289	(28,800)
Items classified as financing activities	1,600	1,607
Net cash flow from operating activities	**33,599**	**(16,165)**

The notes to the condensed interim financial statements form part of, and are to be read in conjunction with, these condensed interim financial statements

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

(a) Reporting Entity

The Co-operative Bank Limited (the "Registered Bank" or "Co-op Bank") is a profit-oriented entity incorporated in New Zealand under the Companies Act 1993 and is registered under the Co-operative Companies Act 1996. Co-op Bank is an FMC Reporting Entity under the Financial Market Conducts Act 2013.

Co-op Bank is a financial services co-operative providing a number of financial products to its customers, including loans, current accounts, other deposits and insurance. The registered office is 10 Waterloo Quay, Wellington.

These financial statements are for the Banking Group, comprising Co-op Bank and its subsidiaries. The subsidiaries included in the Banking Group are:

- Co-operative Life Limited ("Co-op Life") (wholly owned subsidiary) – issues life and trauma insurance products
- Co-op Bank Warehouse Trust ("Warehouse Trust") (in-substance subsidiary) – special purpose entity holding securitised loans purchased from Co-op Bank
- The Co-operative Bank RMBS Trust ("Co-op RMBS Trust") – special purpose entity holding securitised loans purchased from Co-op Bank
- PSIS Limited (wholly owned subsidiary) - dormant company.

Details of each entity within the Banking Group are set out in the Banking Group's full year Disclosure Statement for the year ended 31 March 2019. There have been no changes to the Banking Group during the interim financial reporting period.

Words and phrases defined in the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the"Order") have the same meanings when used in this Disclosure Statement.

(b) Basis of Preparation

The condensed consolidated interim financial statements of the Banking Group included in this Disclosure Statement have been prepared in accordance with the New Zealand equivalent to International Accounting Standard NZ IAS 34: *Interim Financial Reporting*, IAS 34: *Interim Financial Reporting* and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), and should be read in conjunction with the Disclosure Statement for the year ended 31 March 2019.

The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with the accounting policies used in the preparation of the Disclosure Statement and Annual Report for the year ended 31 March 2019.

These condensed consolidated interim financial statements were authorised for issue by the Board of Directors (the "Board") on 21 November 2019.

(c) Presentation Currency and Rounding

The functional and presentation currency of the Banking Group is New Zealand dollars. All amounts contained in the condensed consolidated interim financial statements are presented in thousands of New Zealand dollars ($000), unless otherwise stated.

(d) Comparatives

To ensure consistency with the current period, comparative figures have been reclassified where appropriate.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONT.

(e) Changes in accounting policies and application of new or amended accounting standards

Accounting policies are consistent with those applied in the Disclosure Statement for the year ended 31 March 2019, except as disclosed below:

New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") 16 – Leases

Effective 1 April 2019

NZ IFRS 16 Leases
NZ IFRS 16 eliminates the distinction between operating and finance leases. It requires a lessee to recognise an asset for the right to use the leased item and a liability for the present value of its future lease payments. The Banking Group leases primarily relate to retail and office space and during the period the bank counted two leases as short term including one which was subleased.

The cumulative impact of adopting NZ IFRS 16 has been adjusted through opening retained earnings as shown in the following table and in the condensed statement of changes in equity.

	Values at adoption ($000)
Right of use asset	46,741
Accumulated depreciation	(14,868)
Net book value	31,873
Lease liability	33,683
Retained earnings	1,810
Deferred tax effect on retained earnings	(507)
Transferred from retained earnings	1,303

Included within the Condensed Income Statement are the following amounts related to leases

	Unaudited 6 months ended 30/09/2019 $000
Lease interest expense	665
Right of use asset depreciation	1,436
Short term lease expense	161
Short term sublease income	129
Low value leases	43

Refer to note 16 for the contractual maturity analysis of the lease liabilities. Short term lease commitment at the end of the period totals $19,000 with short term sublease income of $21,000, these amounts are due within 6 months.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONT.

The movement on the carrying value of the right of use asset is as follows

	Opening 01/04/2019	Increased from variations	Leases ended	Depreciation charge	Closing 30/09/2019
Right of use asset	46,741	772	(2,207)		45,306
Accumulated depreciation	(14,868)		1,803	(1,436)	(14,501)
Net book value	**31,873**	**772**	**(404)**	**(1,436)**	**30,805**

Effective 1 April 2022

NZ IFRS 17 Insurance Contracts

NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The Banking Group is in the process of assessing the impact of the application of NZ IFRS 17 and is not yet able to reasonably estimate the impact on its financial statements.

2. LOANS AND ADVANCES

	Unaudited 30/09/2019 $000	Audited 31/03/2019 $000
Advances to customers		
Residential mortgage loans	2,330,145	2,281,123
Non-mortgage loans	180,031	185,590
	2,510,176	2,466,713
Provisions for credit impairment	(6,054)	(6,180)
Net loans and advances	**2,504,122**	**2,460,533**

As at 30 September 2019 residential mortgage loans include securitised receivables of $641.0 million (31 March 2019: $504.6 million). These residential mortgage loans are subject to one or other of the securities referred to in Note 4.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

3. ASSET QUALITY AND PROVISIONS FOR CREDIT IMPAIRMENT

(a) Gross impaired assets

	Unaudited 30/09/2019 Mortgage $000	Unaudited 30/09/2019 Non-Mortgage $000	Unaudited 30/09/2019 Total $000	Audited 31/03/2019 Total $000
Opening balance	2,653	-	2,653	1,928
Additions	3,276	-	3,276	2,044
Amounts written off	-	-	-	(20)
Amounts written back	(281)	-	(281)	(1,299)
Closing balance	**5,648**	**-**	**5,648**	**2,653**

As at 30 September 2019, the security value after costs held to back these assets was approximately $4.8 million (31 March 2019: $2.8 million). There were no other undrawn balances on individually impaired lending commitments or other assets under administration at 30 September 2019 or 31 March 2019.

(b) Aging of past due but not impaired assets

	Unaudited 30/09/2019 Mortgage $000	Unaudited 30/09/2019 Non-Mortgage $000	Unaudited 30/09/2019 Total $000	Audited 31/03/2019 Total $000
1 - 29 days	38,091	4,196	42,287	43,964
30 - 59 days	3,278	684	3,962	6,058
60 - 89 days	1,354	282	1,636	4,576
90 days plus	3,560	486	4,046	6,352
	46,283	**5,648**	**51,931**	**60,950**

As at 30 September 2019, the security value after costs held to back these assets was approximately $107.0 million (31 March 2019: $112.5 million).

(c) Provisions for credit impairment

	Unaudited 30/09/2019 Mortgage $000	Unaudited 30/09/2019 Non-Mortgage $000	Unaudited 30/09/2019 Total $000	Audited 31/03/2019 Total $000
Collective provision				
Opening balance at 31 March	2,023	3,663	5,686	5,133
(Credited) / charged to profit before income tax	(316)	(133)	(449)	553
Closing balance	**1,707**	**3,530**	**5,237**	**5,686**
Individual provisions				
Opening balance	494	-	494	642
Additions	379	-	379	241
Amounts written off	-	-	-	(64)
Provisions released	(56)	-	(56)	(325)
Closing balance	**817**	**-**	**817**	**494**
Total provisions for credit impairment	**2,524**	**3,530**	**6,054**	**6,180**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

3. ASSET QUALITY AND PROVISIONS FOR CREDIT IMPAIRMENT CONT.

(d) Impairment losses charged to profit before tax

	Unaudited 30/09/2019 Mortgage $000	Unaudited 30/09/2019 Non-Mortgage $000	Unaudited 30/09/2019 Total $000	Unaudited 30/09/2018 Total $000
Movement in collective provision	(316)	(133)	(449)	241
Movement in individual provisions	323	-	323	(128)
Bad debts written off	-	1,342	1,342	1,877
Bad debts recovered	-	(232)	(232)	(185)
Total impairment losses charged to profit before tax	**7**	**977**	**984**	**1,805**

4. SECURED BORROWINGS

	Unaudited 30/09/2019 $000	Audited 31/03/2019 $000
Warehouse Trust – Westpac and BNZ	230,512	189,379
Cost of raising secured borrowings	(277)	(165)
	230,235	**189,214**

Of the total securitised receivables of $641.0 million (as included in total Residential Mortgage Loans in Note 2), $372.2 million (31 March 2019: $338.3 million) secure the borrowings noted above. Receivables are secured against these borrowings by the master security deed in favour of security trustees who hold those securities for the benefit of the investor. The Warehouse Trust was established solely for the purpose of purchasing mortgages from the Co-op Bank and funding the same by wholesale funding from Westpac Banking Corporation ("Westpac"), Bank of New Zealand ("BNZ") and Co-op Bank (as the case may be). The Warehouse Trust uses the sale proceeds to repay money owing to Westpac, BNZ and Co-op Bank.

The remaining securitised receivables of $268.8 million (31 March 2019: $166.3 million) relate to the Co-op RMBS Trust. The Co-op RMBS Trust is an in-house residential mortgage backed securities facility that can issue securities that meet the Reserve Bank of New Zealand's ("RBNZ") criteria to use as collateral in repurchase transactions with the RBNZ. Co-op Bank holds both series of class A and class B bonds issued by the Co-op RMBS Trust.

Co-op Bank's interests in the securitised receivables rank behind the security interests of the security trustees.

As at 30 September 2019, the fair value of the secured borrowings was $230.5 million (31 March 2019: $189.2 million) and the fair value of the securitised receivable was $643.8 million (31 March 2019: $506.4 million).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

5. RELATED PARTIES

The Banking Group is controlled by Co-op Bank who is also the ultimate parent. There have been no changes in the composition of the Banking Group since 31 March 2019. At 30 September 2019 there were no material amounts due to or due from any related parties that are outside of the Banking Group.

6. LIFE INSURANCE NET POLICY LIABILITIES

The Banking Group conducts life insurance business through its wholly-owned subsidiary Co-op Life. An actuarial valuation of the policy liabilities as at 30 September 2019 was prepared by Peter Davies, B.Bus.Sc, FIA, FNZSA, and has been calculated in accordance with NZ IFRS 4: Insurance Contracts issued by the External Reporting Board, and Professional Standard No. 20 of the New Zealand Society of Actuaries. There were no material changes to key assumptions used in determining the policy liabilities as at 30 September 2019 compared to the assumptions used in the 31 March 2019 valuation.

7. CREDIT RELATED COMMITMENTS AND CONTINGENT LIABILITIES

The Banking Group had approved $129.5 million of loans and advances which had not been paid out at 30 September 2019 (31 March 2019: $118.9 million).

The Banking Group had no material contingent liabilities as at 30 September 2019 (31 March 2019: Nil).

8. CAPITAL COMMITMENTS

The Banking Group had no capital expenditure commitments at 30 September 2019 that were not provided for in these condensed interim financial statements (31 March 2019: nil).

9. RISK MANAGEMENT POLICIES

There have been no material changes in the Banking Group's policies for managing credit risk, currency risk, interest rate risk, liquidity risk, capital risk and operational risk since 31 March 2019, the reporting date for Co-op Bank's last Disclosure Statement.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

10. CONCENTRATIONS OF CREDIT RISK

	Unaudited 30/09/2019 $000	Audited 31/03/2019 $000
Cash on hand and at New Zealand registered banks	48,350	20,964
Receivables	11,827	10,614
Fair value through OCI investments	293,018	256,052
Derivatives	7,244	6,141
Fair value through profit or loss investments	8,383	7,924
Loans and advances	2,504,122	2,460,533
Total on balance sheet credit exposures	**2,872,944**	**2,762,228**
Off balance sheet exposures – undrawn commitments	129,473	118,873
Total credit exposures	**3,002,417**	**2,881,101**
Concentration of credit exposures by sector		
Cash on hand	1,170	1,132
Local government	13,256	7,492
Registered banks	93,144	44,486
Listed multilateral development banks and other international organisations	188,808	183,154
Other corporate investments	53,373	48,678
Residential mortgage lending	2,390,695	2,338,962
Consumer lending	242,900	240,444
Other	19,071	16,753
Total credit exposures	**3,002,417**	**2,881,101**

The credit exposures shown in the table above are based on actual credit exposures, net of allowances for impairment loss. Off balance sheet exposures – undrawn commitments represents the unutilised balances of customer credit facilities (revolving credit mortgages, overdrafts, credit card and creditline accounts) and approved but undrawn lending. Other corporate investments include investments in instruments issued by financial institutions. As at 30 September 2019, 87% of the Banking Group's mortgage portfolio were owner occupied residential properties (31 March 2019: 85%).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

11. CONCENTRATION OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

The Banking Group's disclosure of concentrations of credit exposures to individual counterparties and groups of closely related counterparties shown below is based on actual credit exposures, net of allowances for impairment loss, excluding credit exposures to connected persons, the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and any supra-national or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

Peak end of day credit exposure is calculated by determining the maximum end of day aggregate amount of credit exposure over the financial reporting period for individual counterparties, and then dividing that amount by the Banking Group's Total Equity as at the reporting date.

	Unaudited As at 30/09/2019	Unaudited Peak end of day over 6 months to 30/09/2019	Audited As at 31/03/2019	Audited Peak end of day over year to 31/03/2019
Exposures to banks				
Total number of exposures to banks that are greater than 10% of CET1 capital with a long-term credit rating of A- or A3 or above, or its equivalent				
• 10% to less than 15% of CET1 capital	-	-	2	-
• 15% to less than 20% of CET1 capital	1	1	-	-
• 20% to less than 25% of CET1 capital	1	1	-	-
• 25% to less than 30% of CET1 capital	-	-	-	2
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-	-	-

	Unaudited As at 30/09/2019	Unaudited Peak end of day over 6 months to 30/09/2019	Audited As at 31/03/2019	Audited Peak end of day over year to 31/03/2019
Exposures to non-banks				
Total number of exposures to non-banks that are greater than 10% of CET1 capital with a long-term credit rating of A- or A3 or above, or its equivalent				
• 15% to less than 20% of CET1 capital	-	1	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-	-	-

The above tables have been compiled using gross credit exposures and do not include any guarantee arrangements as none have been granted by the Banking Group.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

12. CONCENTRATIONS OF FUNDING

	Unaudited 30/09/2019 $000	Audited 31/03/2019 $000
Deposits	2,380,927	2,320,576
Registered banks	230,235	189,214
Subordinated notes	45,046	44,980
Total funding	**2,656,208**	**2,554,770**
The funding shown in the table above is presented at amortised cost.		
Geographical distribution of funding		
North Island	2,046,696	1,958,198
South Island	583,036	569,399
Overseas	26,476	27,173
Total funding	**2,656,208**	**2,554,770**

13. INTEREST RATE PROFILE SENSITIVITY GAP

The following tables include the Banking Group's financial assets and financial liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The net derivative notional principals are the principal values of interest rate swaps at contractual repricing dates less principal values at maturity date.

Unaudited as at 30 September 2019

	Up to 3 months $000	Over 3 to 6 months $000	Over 6 to 12 months $000	Over 1 to 2 years $000	Over 2 years $000	Not interest bearing $000	Total $000
Assets							
Cash and cash equivalents	47,180	-	-	-	-	1,170	48,350
Receivables	-	-	-	-	-	11,827	11,827
Fair value through OCI investments	90,728	-	-	-	202,290	-	293,018
Fair value through profit or loss investments	1,126	1,918	766	2,179	2,394	-	8,383
Derivatives	-	-	-	-	-	7,244	7,244
Loans and advances	1,200,618	135,789	359,289	655,651	158,012	(5,237)	2,504,122
Total financial assets	**1,339,652**	**137,707**	**360,055**	**657,830**	**362,696**	**15,004**	**2,872,944**
Liabilities							
Payables and other liabilities	-	-	-	-	-	40,991	40,991
Derivatives	-	-	-	-	-	22,228	22,228
Deposits	1,118,517	460,944	459,552	107,404	53,816	180,694	2,380,927
Secured borrowings	230,511	-	-	-	-	(276)	230,235
Subordinated notes	298	-	-	-	45,000	(252)	45,046
Total financial liabilities	**1,349,326**	**460,944**	**459,552**	**107,404**	**98,816**	**243,385**	**2,719,427**
Net derivative notional principals	384,000	201,000	(116,200)	(364,700)	(104,100)	-	-
Total interest rate profile sensitivity gap	**374,326**	**(122,237)**	**(215,697)**	**185,726**	**159,780**	**(228,381)**	**153,517**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

13. INTEREST RATE PROFILE SENSITIVITY GAP CONT.

Audited as at 31 March 2019

	Up to 3 months $000	Over 3 to 6 months $000	Over 6 to 12 months $000	Over 1 to 2 years $000	Over 2 years $000	Not interest bearing $000	Total $000
Assets							
Cash and cash equivalents	19,832	-	-	-	-	1,132	20,964
Receivables	-	-	-	-	-	10,614	10,614
Fair value through OCI investments	79,662	4,943	-	4,849	166,598	-	256,052
Derivatives	-	-	-	-	-	6,141	6,141
Fair value through profit or loss investments	2,167	701	1,480	1,184	2,392	-	7,924
Loans and advances	722,496	343,479	704,630	541,025	154,589	(5,686)	2,460,533
Total financial assets	**824,157**	**349,123**	**706,110**	**547,058**	**323,579**	**12,201**	**2,762,228**
Liabilities							
Payables and other liabilities	-	-	-	-	-	10,807	10,807
Derivatives	-	-	-	-	-	15,711	15,711
Deposits	1,105,671	441,699	450,260	137,527	60,403	125,016	2,320,576
Secured borrowings	189,465	-	-	-	-	-	189,214
Subordinated notes	299	-	-	-	45,000	(319)	44,980
Total financial liabilities	**1,295,435**	**441,699**	**450,260**	**137,527**	**105,403**	**150,964**	**2,581,288**
Net derivative notional principals	526,500	98,500	(177,000)	(359,900)	(88,100)	-	-
Total interest rate profile sensitivity gap	**55,222**	**5,924**	**78,850**	**49,631**	**130,076**	**(138,763)**	**180,940**

14. LIQUIDITY RISK

The Banking Group holds the following financial assets for the purpose of managing liquidity risk. Total liquidity includes committed but undrawn funding lines. As at 30 September 2019, the Banking Group had total committed funding lines with other registered banks of $315.0 million (31 March 2019: $315.0 million). Of these facilities $230.0 million was drawn down at 30 September 2019 (31 March 2019: $189.0 million).

	Unaudited 30/09/2019 $000	Audited 31/03/2019 $000
Cash and cash equivalents	48,350	20,964
Fair value through OCI investments	293,018	256,052
Fair value through profit or loss investments	8,383	7,924
Undrawn wholesale funding	85,000	126,000
Eligible Co-op RMBS Trust collateral	144,546	137,596
Total liquidity	**579,297**	**548,536**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an on-going basis either at fair value or amortised cost. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

(a) Comparison of Fair Values and Carrying Values

The following table summarises the carrying amounts and fair values of those financial assets and financial liabilities that are not presented at fair value in the Balance Sheet.

	Unaudited Carrying value 30/09/2019 $000	Unaudited Fair value 30/09/2019 $000	Audited Carrying value 31/03/2019 $000	Audited Fair value 31/03/2019 $000
Financial assets				
Loans and advances	2,504,122	2,516,128	2,460,533	2,468,020
Total	**2,504,122**	**2,516,128**	**2,460,533**	**2,468,020**
Financial liabilities				
Deposits	2,380,927	2,386,700	2,320,576	2,321,276
Secured borrowings	230,235	230,522	189,214	189,214
Subordinated notes	45,046	47,596	44,980	46,969
Total	**2,656,208**	**2,664,818**	**2,554,770**	**2,557,459**

(b) Fair Value Valuation Methodology

A number of financial instruments are carried on the balance sheet at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for an instrument is not available, the fair value is based on discounted cash flow models incorporating current market observable data for similar instruments or other valuation techniques based on current market conditions.

The following fair value hierarchy, as set out in *NZ IFRS 13: Fair Value Measurement*, has been used to categorise the inputs to valuation techniques used to measure the financial assets and financial liabilities which are carried at fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

All of the Banking Group's financial instruments that are recognised and measured at fair value on a recurring basis sit within Level 2.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the reporting period.

The Banking Group determines the valuation of financial instruments classified in Level 2 as follows:

Derivative Assets and Derivative Liabilities

The fair values are obtained from market yields and discounted cash flow models.

Fair value through OCI Investments and Fair Value through Profit or Loss Investments

The fair values are estimated using present value or other market acceptable valuation techniques, using methods or assumptions that are based on observable market conditions and risks existing as at the reporting date.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

16. CONTRACTUAL MATURITY ANALYSIS

The following tables analyse the Banking Group's financial assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The figures reported include interest and principal cash flows expected to maturity, as well as the commitment to make amounts available in instalments. The total amount is different from the amount shown on the Condensed Balance Sheet as the cash flows shown below are undiscounted cash flows that include interest.

The contractual maturity analysis is not used by the Banking Group to manage liquidity as these maturity groupings are not considered to be indicative of actual future cash flows. This is primarily because the majority of the longer term Loans and Advances are housing loans, which are likely to be repaid earlier than their contractual terms. In addition Deposits include substantial savings deposits and cheque accounts which are at call and deposits which are renewed at maturity and therefore do not have a cash flow impact. Historical experience has shown that the re-investment of such deposit accounts is a stable source of long-term funding for the Banking Group.

As set out in Note 14, the Banking Group manages liquidity through the maintenance of a portfolio of liquid assets and committed funding lines rather than on a contractual maturity basis.

Unaudited as at 30 September 2019

	On demand $000	Up to 6 months $000	Over 6 to 12 months $000	Over 1 to 2 years $000	Over 2 years $000	No maturity $000	Total $000
Liabilities							
Payables and other liabilities	-	8,190	3,153	3,107	41,229	-	55,679
Derivatives	-	5,734	4,416	5,597	7,486	-	23,233
Deposits	763,300	1,010,365	465,846	111,817	58,974	-	2,410,302
Secured borrowings	-	2,407	2,177	232,326	-	-	236,910
Subordinated notes	-	1,888	1,590	18,025	30,444	-	51,947
Total financial liabilities	**763,300**	**1,028,584**	**477,182**	**370,872**	**138,133**	**-**	**2,778,071**
Undrawn commitments	**113,695**	**15,778**	**-**	**-**	**-**	**-**	**129,473**

Audited as at 31 March 2019

	On demand $000	Up to 6 months $000	Over 6 to 12 months $000	Over 1 to 2 years $000	Over 2 years $000	No maturity $000	Total $000
Liabilities							
Payables and other liabilities	-	9,627	1,180	-	-	-	10,807
Derivatives	-	3,907	3,029	4,087	4,934	-	15,957
Deposits	702,363	983,890	456,850	143,566	66,591	-	2,353,260
Secured borrowings	-	2,798	2,419	189,172	-	-	194,389
Subordinated notes	-	605	1,590	3,180	46,883	-	52,258
Total financial liabilities	**702,363**	**1,000,827**	**465,068**	**340,005**	**118,408**	**-**	**2,626,671**
Undrawn commitments	**103,630**	**15,243**	**-**	**-**	**-**	**-**	**118,873**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

17. SEGMENT REPORTING

Co-op Bank operates in one geographical segment which is New Zealand. All assets, other than certain financial instruments, are held in New Zealand. The Banking Group does not generate in excess of 10% of total revenue from any single customer.

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker, being Co-op Bank's Chief Executive. The Chief Executive is responsible for allocating resources and assessing performance of the operating segments.

For segment reporting purposes, the Banking Group is organised into two major business groups – Banking and Insurance. Operating segments have been categorised according to their service nature and business process. Banking is the core operating segment which comprises all of the banking activities. Its range of products includes loans and advances and deposits. The insurance segment encompasses activity associated with Co-op Life and includes the performance of the Life Plus, Loan Plus, and Loan Instalment Care insurance products.

Unaudited consolidated segment information for the six months ended 30 September 2019

	Banking $000	Insurance $000	Total $000
Interest income	70,421	200	70,621
Interest expense	(39,861)	-	(39,861)
Other operating income	6,027	3,853	9,880
Net operating income	36,587	4,053	40,640
Profit before income tax	5,038	1,724	6,762
Unaudited consolidated segment information as at 30 September 2019:			
Total assets	2,911,898	15,282	2,927,180
Total liabilities	2,721,460	4,774	2,726,234

Unaudited consolidated segment information for the six months ended 30 September 2018

	Banking $000	Insurance $000	Total $000
Interest income	69,801	193	69,994
Interest expense	(38,892)	-	(38,892)
Other operating income	4,907	3,994	8,901
Net operating income	35,816	4,187	40,003
Profit before income tax	5,890	1,952	7,842
Audited consolidated segment information as at 31 March 2019:			
Total assets	2,771,614	14,242	2,785,856
Total liabilities	2,583,138	5,046	2,588,184

18. SUBSEQUENT EVENTS

There have been no events subsequent to the reporting date which would materially affect these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

19. CAPITAL ADEQUACY

The Banking Group's objectives in relation to the management of capital adequacy are to comply at all times with the regulatory capital requirements set out by the RBNZ, to maintain a strong capital base to cover the inherent risks of the business and maintain a targeted credit rating, and to support future business development and growth.

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for banks that are consistent with the international agreed framework developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Banking Group. The Banking Group has complied with the Reserve Bank minimum capital adequacy ratio as determined in its Conditions of Registration, which are as follows:

- Total capital ratio of the Banking Group is not less than 8%;
- Tier 1 capital ratio of the Banking Group is not less than 6%;
- Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5%; and
- Total capital of the Banking Group is not less than NZ $30 million.

For regulatory purposes, total capital is defined as the sum of the following categories:

- Tier 1 capital which comprises:

  (i) Common Equity Tier 1 capital; and

  (ii) Additional Tier 1 capital; and
- Tier 2 capital.

Certain deductions are made to arrive at Tier 1 and Tier 2 capital as documented in the RBNZ's Capital Adequacy Framework Standardised Approach (BS2A dated November 2015), the "Standardised Approach".

Tier 1 capital includes revenue and similar reserves and retained profits less intangible assets, cash flow hedging reserves, and deferred tax. The Banking Group does not have any items included in Additional Tier 1 capital. Tier 2 capital consists of term subordinated debt.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. Risk weighted exposures are derived by assigning risk weight percentages to categories of exposures. These exposures are measured or estimated from selected balance sheet assets and off balance sheet exposures and market contracts. It should be noted that the regulatory risk weightings may not necessarily be consistent with the loss experience of the Banking Group.

The Banking Group has adopted the Basel III "standardised approach" as per BS2A to calculate regulatory capital requirements. Basel III consists of three pillars: Pillar One covers the capital requirements for the Banking Group's credit, operational, and market risks. Pillar Two covers capital for other risks and overall capital adequacy. Pillar Three relates to market disclosure.

Pillar Two of Basel III is intended to ensure that the Banking Group has adequate capital to support all material risks inherent in its business activities and includes the requirement on the Banking Group to have an Internal Capital Adequacy Assessment Process ("ICAAP") for assessing its overall capital adequacy in relation to its risk profile and a strategy for maintaining adequate capital to support risk.

In addition to the material risks that are explicitly captured in the calculation of the Banking Group's Tier 1 and Total Capital Ratios, the Banking Group has identified other areas of material risks which require an internal capital allocation. The other material risks identified by the Banking Group include access to capital, business position and earnings risk. As at 30 September 2019, the Banking Group has made an internal capital allocation of $83.0 million (31 March 2019: $78.7 million) to cover these identified risks. This internal capital allocation is in addition to the minimum capital required by the Reserve Bank.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

19. CAPITAL ADEQUACY CONT.

The Board has ultimate responsibility for capital management, approves capital policy, and establishes minimum internal capital levels and limits. Management has responsibility for monitoring capital adequacy, identifying trends in capital adequacy, and for implementing action plans.

The internally set capital ratio targets for the Banking Group are higher than the regulatory minimum.

The capital adequacy calculations set out below summarise the composition of regulatory capital and capital adequacy ratios. For the purposes of calculating solo capital adequacy, the securitisation special purpose vehicles (the Warehouse Trust and the Co-op RMBS Trust) are treated as part of Co-op Bank. Co-op Bank is required by New Zealand generally accepted accounting practice to consolidate these special purpose vehicles in its Banking Group financial statements.

(a) Regulatory Capital Ratios

		Banking Group		Co-op Bank	
	Minimum Requirement	Unaudited 30/09/2019	Unaudited 31/03/2019	Unaudited 30/09/2019	Unaudited 31/03/2019
Common equity tier one capital ratio	4.5%	14.4%	14.6%	13.7%	14.0%
Tier one capital ratio	6.0%	14.4%	14.6%	13.7%	14.0%
Total capital ratio	8.0%	16.7%	17.1%	16.1%	16.6%
Buffer ratio	2.5%	8.4%	8.6%	7.7%	-

(b) Capital

Banking Group	Unaudited 30/09/2019 $000	Unaudited 31/03/2019 $000
Common equity tier 1 capital		
Retained earnings (net of appropriations and after adjustment on adoption of NZ IFRS 16)	196,806	188,536
Accumulated other comprehensive income:		
Profit after income tax	4,837	9,573
Fair value through OCI investments reserve	9,220	5,881
Cash flow hedging reserve	(9,917)	(6,318)
	200,946	**197,672**
Less deductions from common equity tier one capital		
Intangible assets	(11,958)	(12,332)
Deferred tax asset	-	-
Cash flow hedging reserve	9,917	6,318
Total common equity tier one capital	**198,905**	**191,658**
Additional tier one capital	**-**	**-**
Total tier one capital	**198,905**	**191,658**
Tier two capital		
Term subordinated debt	32,400	32,400
Total tier two capital	**32,400**	**32,400**
Total capital	**231,305**	**224,058**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

19. CAPITAL ADEQUACY CONT.

As at 30 September 2019 the capital structure of the Banking Group comprised the following:

Retained Earnings

Retained earnings comprise the accumulated comprehensive income that has been retained in the Banking Group.

Fair value through OCI Investments Reserve

The fair value through OCI investments reserve comprises the changes in the fair value of OCI investments, net of tax. These changes are recognised in profit or loss as other income when the asset is either derecognised or impaired.

Cash Flow Hedging Reserve

The cash flow hedging reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Term Subordinated Debt

The term subordinated debt shown under Tier Two Capital consists of unsecured, subordinated, loss absorbing Tier 2 regulatory capital debt securities ("Subordinated Notes"). On 28 July 2016, Co-op Bank issued $15.0 million of Subordinated Notes to retail investors and on 9 December 2016 $30.0 million as a New Zealand wholesale investor placement. The retail issue is listed on the NZX Debt Market, and all securities issued rank equally.

The retail issue has a maturity date of 28 July 2026, subject to early redemption on 28 July 2021 or any scheduled interest payment date thereafter, subject to Co-op Bank being able to satisfy the solvency test immediately following the payment. The wholesale issue has a maturity date of 9 December 2026, subject to early redemption on 9 December 2021 or any scheduled interest payment date thereafter, subject to Co-op Bank being able to satisfy the solvency test immediately following the payment. Subordinated Notes may also be redeemed if a regulatory or tax event occurs. Repayment is subject to restrictions, including regulatory approval, and will not occur unless those restrictions are complied with.

For the first five years from issue date, the interest rate will be fixed at 6.0% for the retail issue and 7.6% for the wholesale issue. From the first optional redemption date (28 July 2021) for the retail issue, the interest rate will be floating calculated using the Bank Bill FRA Rate plus a margin (3.52%). Interest will be paid quarterly in arrears on each interest payment date with the next interest payment being 29 October 2019. From the first optional redemption date (9 December 2021) for the wholesale issue, the interest rate will be floating calculated using the Bank Bill FRA Rate plus a margin (4.80%). Interest will be paid quarterly in arrears on each interest payment date with the next interest payment being 9 December 2019.

Subordinated Note holders rank behind depositors and other unsecured creditors of Co-op Bank. The Subordinated Notes are not guaranteed by any other member of the Banking Group, or by any other person. Some or all of the Subordinated Notes may be required to be written down if the RBNZ, or a statutory manager appointed by the RBNZ, directs Co-op Bank to write down the Subordinated Notes.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

19. CAPITAL ADEQUACY CONT.

(c) Credit Risk

(i) Calculation of On Balance Sheet Exposures - Unaudited

	Total exposure after credit risk mitigation	Risk weight	Risk weighted exposure	Pillar one minimum capital requirement
As at 30 September 2019	**$000**	**%**	**$000**	**$000**
Cash	1,170	0%	-	-
Multilateral development banks and other international organisations	184,819	0%	-	-
Multilateral development banks and other international organisations	3,990	20%	798	64
Public sector entities	13,042	20%	2,608	209
Public sector entities	214	50%	107	9
Banks	92,059	20%	18,412	1,473
Banks	1,085	50%	543	43
Corporates	20,981	20%	4,196	336
Corporates	32,393	50%	16,197	1,296
Residential mortgages				
Residential mortgages not past due (<= 80% lvr)	1,707,532	35%	597,637	47,811
Residential mortgages not past due (>80% - 90% lvr)	124,865	50%	62,433	4,995
Residential mortgages not past due (>90% - 100% lvr)	3,648	75%	2,736	219
Residential mortgages not past due (>100% lvr)	968	100%	968	77
Property investment residential mortgages				
Residential mortgages not past due (<= 80% lvr)	371,871	40%	148,748	11,900
Residential mortgages not past due (>80% - 90% lvr)	7,992	70%	5,594	448
Residential mortgages not past due (>90% - 100% lvr)	339	90%	305	24
Residential mortgages not past due (>100% lvr)	349	100%	349	28
Welcome home loans				
Residential mortgages not past due (<= 90% lvr)	104,134	35%	36,447	2,916
Residential mortgages not past due (>90% - 100% lvr)	2,077	50%	1,039	83
Past due residential mortgages	3,846	100%	3,846	308
Other assets	228,912	100%	228,912	18,313
Other past due assets	486	100%	486	39
Non risk weighted assets	20,408	0%	-	-
Total	**2,927,180**		**1,132,361**	**90,591**

19. CAPITAL ADEQUACY CONT.

(c) Credit Risk cont.

(i) Calculation of On Balance Sheet Exposures - Unaudited cont.

	Total exposure after credit risk mitigation	Risk weight	Risk weighted exposure	Pillar one minimum capital requirement
As at 31 March 2018	**$000**	**%**	**$000**	**$000**
Cash	1,132	0%	-	-
Multilateral development banks and other international organisations	171,418	0%	-	-
Multilateral development banks and other international organisations	11,736	20%	2,347	188
Public sector entities	7,282	20%	1,456	116
Public sector entities	210	50%	105	8
Banks	43,195	20%	8,639	691
Banks	1,291	50%	646	52
Corporates	5,506	20%	1,101	88
Corporates	43,172	50%	21,586	1,727
Residential mortgages				
Residential mortgages not past due (<= 80% lvr)	1,642,781	35%	574,973	45,998
Residential mortgages not past due (>80% - 90% lvr)	119,113	50%	59,557	4,765
Residential mortgages not past due (>90% - 100% lvr)	7,282	75%	5,462	437
Residential mortgages not past due (>100% lvr)	1,166	100%	1,166	93
Property investment residential mortgages				
Residential mortgages not past due (<= 80% lvr)	383,273	40%	153,309	12,265
Residential mortgages not past due (>80% - 90% lvr)	11,356	70%	7,949	636
Residential mortgages not past due (>90% - 100% lvr)	345	90%	311	25
Residential mortgages not past due (>100% lvr)	279	100%	279	22
Welcome home loans				
Residential mortgages not past due (<= 90% lvr)	103,460	35%	36,211	2,897
Residential mortgages not past due (>90% - 100% lvr)	3,005	50%	1,503	120
Past due residential mortgages	6,546	100%	6,546	524
Other assets	203,103	100%	203,103	16,248
Other past due assets	605	100%	605	48
Non risk weighted assets	18,600	0%	-	-
Total	**2,785,856**		**1,086,854**	**86,948**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

19. CAPITAL ADEQUACY CONT.

(c) Credit Risk cont.

(ii) Calculation of Off Balance Sheet Exposures - Unaudited

Undrawn Other Commitments	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum pillar one capital requirement
Original maturity is more than 1 year	$000	%	$000	%	$000	$000
30/09/2019	129,473	50%	64,737	68%	44,238	3,539
31/03/2019	118,873	50%	59,437	67%	39,821	3,186
Market Contracts						
30/09/2019						
Interest rate swaps	2,260,480	n/a	15,207	20%	3,041	243
Foreign exchange contracts	-	n/a	-	20%	-	-
31/03/2019						
Interest rate swaps	2,194,546	n/a	14,086	20%	2,817	225
Foreign exchange contracts	-	n/a	-	n/a	-	-

Other Commitments represents the unutilised balances of customer's credit facilities (revolving credit mortgages, overdrafts, credit card and creditline accounts), and approved but undrawn loans. Original maturity is more than 1 year.

(d) Banking Group's Residential Mortgages by Loan to Value Ratio - Unaudited

	On balance sheet 30/09/2019	Off balance sheet 30/09/2019	On balance sheet 31/03/2019	Off balance sheet 31/03/2019
Loan to Value Ratio	$000	$000	$000	$000
LVR 0% - 80%	2,091,911	60,581	2,036,691	56,856
LVR > 80% - 90%	228,186	2,493	229,668	3,500
LVR > 90%	7,524	-	12,247	-
Total	**2,327,621**	**63,074**	**2,278,606**	**60,356**

Reconciliation of Mortgage Related Amounts	Note	30/09/2019 $000	31/03/2019 $000
Gross residential mortgage loans	2	2,330,145	2,281,123
Provision for impairment relating to residential mortgages	3(c)	(2,524)	(2,517)
Residential mortgage loans net of provision for impairment	19(c)(i), 19(d)	2,327,621	2,278,606
Off balance sheet exposures – undrawn commitments	19(d)	63,074	60,356
Total on and off balance sheet residential mortgage loans	10	2,390,695	2,338,962

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

19. CAPITAL ADEQUACY CONT.

(e) Banking Group's Operational and Market Risk - Unaudited

	Implied risk weighted exposure 30/09/2019	Capital requirement 30/09/2019	Implied risk weighted exposure 31/03/2019	Capital requirement 31/03/2019
	$000	$000	$000	$000
Operational risk	167,722	13,418	160,290	12,823
Market risk - interest rate risk	36,152	2,892	22,127	1,770
Market risk - foreign currency risk	-	-	-	-

The Banking Group did not have any equity exposures as at 30 September 2019 (31 March 2019: Nil).

(f) Banking Group's Market Risk End of Period and Peak End of Day Capital Charges - Unaudited

	End of period 30/09/2019	Peak end of day 30/09/2019	End of period 31/03/2019	Peak end of day 31/03/2019
	$000	$000	$000	$000
Implied risk weighted exposure	36,152	36,152	22,127	22,127
Aggregate capital charge	2,892	2,892	1,770	1,770
Aggregate capital charge expressed as a percentage of the Banking Group's equity	1.25%	1.25%	0.79%	0.79%

The end of period aggregate capital charge and peak end of day aggregate capital charge as a percentage of the Banking Group's equity at the end of the reporting period are derived by following the risk methodology for measuring capital requirements within Part 9 of the Standardised Approach. The peak end of day aggregate capital charge is derived by determining the maximum end of month capital charge over the reporting period. Based on the portfolio of the Banking Group's risk exposures, it is considered by Management that the difference between end of month aggregate capital charge and end of day aggregate capital charge is insignificant. Peak exposures are calculated using the Banking Group's equity at the end of the reporting period.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

19. CAPITAL ADEQUACY CONT.

(g) Banking Group Total Capital Requirements - Unaudited

	Total exposure after credit risk mitigation 30/09/2019	Risk weighted exposure or implied risk weighted exposure 30/09/2019	Capital requirement 30/09/2019
	$000	$000	$000
Total credit risk	5,317,133	1,179,640	94,373
Operational risk	n/a	167,722	13,418
Market risk	n/a	36,152	2,892
Total risk weighted	**5,317,133**	**1,383,514**	**110,683**
	31/03/2019	**31/03/2019**	**31/03/2019**
	$000	$000	$000
Total credit risk	5,099,275	1,129,492	90,359
Operational risk	n/a	160,290	12,823
Market risk	n/a	22,127	1,770
Total risk weighted	**5,099,275**	**1,311,909**	**104,952**

(h) Banking Group's Regulatory Liquidity Ratios – two most recent quarters

	Three months ended 30/09/2019	Three months ended 30/06/2019
Average one-week mismatch ratio	12.54%	12.63%
Average one-month mismatch ratio	15.97%	15.94%
Average core funding ratio	104.08%	102.99%

In accordance with the Banking Group's conditions of registration, the one-week and one-month mismatch ratios for the Banking Group must exceed 0% and the core funding ratio must exceed 75%.

THE CO-OPERATIVE BANK DISCLOSURE STATEMENT

This Disclosure Statement has been issued by Co-op Bank for the six months ended 30 September 2019 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

The condensed consolidated interim financial statements of Co-op Bank for the six months ended 30 September 2019 form part of, and should be read in conjunction with, this Disclosure Statement.

This Disclosure Statement is available on Co-op Bank's website www.co-operativebank.co.nz. In addition, any person can request a hard copy of Co-op Bank's Disclosure Statement at no charge. The copy will be dispatched by the end of the second working day after the day on which the request is received.

GUARANTEE ARRANGEMENTS

There are no guarantees applicable to the Banking Group as at 30 September 2019.

DIRECTORS

At the annual general meeting on 27 June 2019, Sarah Haydon and Clayton Wakefield retired by rotation and were re-elected as Directors.

CONDITIONS OF REGISTRATION

There were no changes to the conditions of registration that affected the 30 September 2019 Disclosure Statement.

PENDING PROCEEDINGS OR ARBITRATION

There are no pending proceedings or arbitrations that may have a material adverse effect on Co-op Bank or the Banking Group.

SECURITISATION

There have been no material changes to Co-op Bank's involvement in securitisation since 31 March 2019, the reporting date of the previous Disclosure Statement.

CREDIT RATING

As at 30 September 2019 and up until the date of the signing of this Disclosure Statement, Co-op Bank was rated BBB (outlook stable) by Fitch Ratings. The Fitch rating was re-affirmed on 7 August 2019, and is applicable to Co-op Bank's long-term senior unsecured obligations.

As at 30 September 2019 and up until the date of the signing of this Disclosure Statement, Co-op Life had a financial strength rating of B++ and an Issuer Credit Rating of bbb+ (outlook stable) issued by A.M. Best Company Inc. The ratings were re-affirmed by A.M. Best Company Inc. on 11 October 2019.

THE CO-OPERATIVE BANK DISCLOSURE STATEMENT

INSURANCE BUSINESS

The Banking Group conducts insurance business through its wholly-owned subsidiary company, Co-op Life. The total assets of Co-op Life as at 30 September 2019 were $15.3 million (31 March 2019: $14.2 million) which is 0.52% of the total assets of the Banking Group (31 March 2019: 0.52%).

INDEPENDENT AUDITOR

KPMG
10 Customhouse Quay
Wellington

OTHER MATERIAL MATTERS

Co-op Bank's Directors are of the opinion that there are no other matters relating to the business or affairs of Co-op Bank or the Banking Group which would, if disclosed in this Disclosure Statement, materially adversely affect the decision of a person to subscribe for debt securities of which Co-op Bank or any member of the Banking Group is the issuer.

DIRECTORS' STATEMENTS

Each Director of Co-op Bank states that he or she believes, after due enquiry, that:

1. As at the date on which this Disclosure Statement is signed:

(a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and

(b) the Disclosure Statement is not false or misleading.

2. For the six months ended 30 September 2019:

(a) the Registered Bank has complied with all conditions of registration that applied during that period;

(b) credit exposures to connected persons (if any) were not contrary to the interests of the Banking Group; and

(c) the Registered Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 21 November 2019 and has been signed by all Directors:

Brendan O'Donovan *(Chairman)*

Sarah Haydon *(Deputy Chairman)*

Paul Goulter

Dianne Kidd

Clayton Wakefield

Brett Sutton

Nicola Ashton

KPMG

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE SHAREHOLDERS OF THE CO-OPERATIVE BANK LIMITED

Report on the consolidated half year disclosure statement

Conclusion

Based on our review of the consolidated interim Disclosure statements and supplementary information of The Co-operative Bank Limited (the "Registered Bank") and its subsidiaries (the 'Banking Group')on pages 3 to 27, nothing has come to our attention that causes us to believe that:

i. the consolidated interim disclosure statements do not present fairly in all material respects the Banking Group's financial position as at 30 September 2019 and its financial performance and cash flows for the 6 month period ended on that date;

ii. the interim disclosure statements (excluding the supplementary information disclosed in accordance with Schedules 5, 7, 11, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order")), have not been prepared, in all material respects, with NZ IAS 34 Interim Financial Reporting ("NZ IAS 34");

iii. the supplementary information, does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 11, 13, 16 and 18 of the Order; and

iv. the supplementary information relating to capital adequacy, has not been prepared, in all material respects, in accordance with the Registered Banks conditions of registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclose it in accordance with Schedule 9 of the Order.

We have completed a review of the accompanying consolidated half year disclosure statement which comprises:

- the interim disclosure statements formed of:
  - the consolidated statement of financial position as at 30 September 2019;
  - the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
  - notes, including a summary of significant accounting policies and other explanatory information.
- the supplementary information prescribed in Schedules 5, 7, 11, 13, 16 and 18 of the Order.

Basis for conclusion

A review of the half year disclosure statement in accordance with NZ SRE 2410 *Review of Disclosure statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of The Co-operative Bank Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual disclosure statements.

Our firm has also provided other services to the group in relation to Risk Framework benchmarking. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as reviewer of the group. The firm has no other relationship with, or interest in, the group.

Use of this independent review report

This independent review report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our review work, this independent review report, or any of the opinions we have formed.

KPMG

INDEPENDENT AUDITOR'S REVIEW REPORT

Responsibilities of the Directors for the consolidated half year disclosure statement

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the consolidated half year disclosure statement in accordance with NZ IAS 34 and Schedules 3, 5, 7, 13, 16 and 18 of the Order;
- the preparation and fair presentation of the supplementary information in regards to capital adequacy and Regulatory Liquidity Requirements in accordance with the Registered Banks conditions of registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and Schedule 9 of the Order;
- implementing necessary internal control to enable the preparation of a consolidated half year disclosure statement that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the consolidated half year disclosure statement

Our responsibility is to express a conclusion on the consolidated half year disclosure statement based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the:

- the consolidated interim disclosure statements do not present fairly in all material respects the Banking Group's financial position as at 30 September 2019 and its financial performance and cash flows for the 6 month period ended on that date;
- the consolidated interim disclosure statements do not, in all material respects, comply with NZ IAS 34;
- the supplementary information does not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and
- the supplementary information relating to capital adequacy is not, prepared in all material respects, in accordance with the Registered Banks Conditions of Registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the consolidated half year disclosure statement.

This description forms part of our independent review report.

KPMG

KPMG
Wellington
20 November 2019

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The Cooperative Bank

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